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"COMMERCE COMMISSION'S PATRIOTIC DUTY"

AN EDITORIAL FROM

THE PHILADELPHIA PUBLIC LEDGER

MAY 4, 1913

WITH CORRESPONDENCE WITH THE EDITORS

ALSO AN ARTICLE BY

DANIEL WILLARD

PRESIDENT OF THE BALTIMORE AND OHIO RAILROAD COMPANY

IN THE PHILADELPHIA PUBLIC LEDGER OF MAY 18

ON THE OCCASION FOR

THE APPLICATION BY THE EASTERN RAILROADS FOR
A GENERAL INCREASE OF FIVE PER CENT.
IN FREIGHT RATES

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TO THE STOCKHOLDERS OF
THE BALTIMORE AND OHIO RAILROAD COMPANY:

One of the most important public questions of the present time, in so far as the commercial and industrial prosperity of the country and the economic welfare of the people are concerned, is the application which has been filed with the Interstate Commerce Commission by the 52 railroads embraced in the Official Classification Territory, or that section which may be described as bounded on the north by Canada, on the east by the Atlantic Ocean, on the south by the Ohio and Potomac Rivers and on the west by the Mississippi, for permission to make a general increase of 5 per cent. in freight rates.

The outcome of the petition made by the railroads will be of vital interest to investors in railroad and other securities because upon the decision of the Interstate Commerce Commission will depend largely the ability of the investors in railroad securities to obtain a fair return upon their investments.

As indicative of the attitude of public opinion towards the merits of the railroads in the matter, an editorial from the *Philadelphia Public Ledger*, of May 4, is printed herein; also correspondence which took place between the Editors and President Daniel Willard, of your Company, and an article written by Mr. Willard for *The Public Ledger* of May 18, in which he discusses the problems confronting the railroads as seen by him and in which he reviewed the rate situation, earning power and operating expenses since the application was made by the railroads in 1910 for permission to increase rates on certain commodities, which request the Interstate Commerce Commission at that time declined to grant.

The desire is to acquaint investors and the general public with the facts with respect to the case as the railroads will present it to the Interstate Commerce Commission, therefore it is believed that the matter will be of particular interest to the reader at this time. Additional copies of this booklet will be furnished upon application to The Baltimore and Ohio Railroad Company, Baltimore, Md., Box 100.

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PHILADELPHIA, SUNDAY, MAY 4, 1913.

COMMERCE COMMISSION'S PATRIOTIC DUTY.

More people are affected directly by an award of the Interstate Commerce Commission than by a decision of the United States Supreme Court. Thus when the railroads shall ask permission to increase freight rates 5 per cent. the yes or no of the commission may mean prosperity or hard times for many million people.

This question of rates should be treated on the broadest possible scale. The country cannot afford to strangle or unnecessarily annoy its greatest single industry except agriculture. The welfare of the entire nation is so closely interwoven with the welfare of its tremendous railroad system that one cannot be hurt without as grievously wounding the other.

No one can escape the conviction that in the past few years the railroads have been put into thumb screws. They have been forced to increase wages several times since the 1907 panic, so that today the railroads of the United States pay not only far greater wages than are paid in any other land, but much greater than were ever before paid in this country. Laws have been enacted which compel them to better their equipment and to safeguard their tracks. Public clamor has demanded the most lavish terminals—buildings that rival in splendor the best the world ever saw.

In every possible direction have the roads been forced to expand and to spend more of their earnings. Wages, track and equipment, each and every one has cut more and more into revenue. The roads are powerless to increase passenger fares or freight rates. At the same time they are powerless to reduce expenses. The sequel is that while this country has been blessed by the most bountiful times ever witnessed, the railroads have not been able to share in it.

Net profits earned on the outstanding capital stock do not rise. On the contrary, they are falling. If the stockholder were the only one to suffer the case would not be so serious.

But the whole country rises and falls with the railroads. It has been so for half a century and is so today. When roads earn great sums they spend the money in countless ways. The steel mill, the nail factory, the locomotive works, the car builder, the coal mine, the timber owner, the contractor, all feel the effects instantly. Prosperity of the roads carries immediately good cheer to millions of workers who are not employed by them.

When the railroads are poverty-stricken and curtail their outlay every other industry in America feels the jolt. And they must curtail them when the margin over necessary expenses dwindles to near the zero point. It is impossible for the railroads to keep on increasing wages and other expenditures without also increasing income. Bankruptcy would be the inevitable sequel.

When the Interstate Commerce Commission takes up this freight rate request it is bound by every instinct of national welfare to consider it in the broadest possible way. The pastime of bullying railroads has ceased to be popular, because it is too dangerous. The commission can do the country a very exalted service by dealing justly with the railroads without any unnecessary delay.



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THE BALTIMORE AND OHIO RAILROAD COMPANY

AT NEW YORK, May 5, 1913.

MY DEAR MR. CURTIS:

My attention has just been called to the editorial appearing in yesterday's Philadelphia *Public Ledger*, under the caption "Commerce Commission's Patriotic Duty."

I have read the article with more than common interest, and if all of the great publications would treat this subject as fairly as *The Ledger* has done, I believe such action would go far towards bringing about an adjustment which in the end would be very satisfactory.

The editorial in *The Ledger* treats of the subject exactly as I would wish; it does not undertake to decide the matter without a hearing, but says that if the railroads are able to prove their case they ought in all fairness and in the interests of the public, to be given such consideration in the way of increased rates as the circumstances seem to justify. No real friend of the railroads could go farther than that. The carriers are not asking for favors in this particular case; they are only asking for what they feel to be fairly and justly their due, and unless they can obtain an advance on that basis, certainly I, for one, would do absolutely nothing for the sake of getting it on any other basis.

I wish again to assure you of my appreciation of the attitude of *The Ledger* towards what I consider one of the most important questions of the day.

Very truly yours,

(Signed) D. WILLARD.

MR. CYRUS H. K. CURTIS,

Publisher, *The Philadelphia Public Ledger*, Philadelphia, Pa.

THE PUBLIC LEDGER

PHILADELPHIA, PA., May 7, 1913.

DANIEL WILLARD, ESQ.,

PRESIDENT, BALTIMORE AND OHIO R. R., BALTIMORE, MD.

Dear Sir:

I have read the letter which you sent Mr. Curtis and will be glad, after you have read this editorial and the one previously published, if you are so disposed, to receive a letter from you, supplementing your point of view, for publication in our columns. It would undoubtedly have a salutary effect. We would be glad to have it over your signature, and we trust with other influential comment on the same subject that we will succeed in attracting national attention to this very obvious injustice.

Hoping to hear from you at an early date, we beg to remain,

Very sincerely yours,

(Signed) GEO. W. OCHS, *Editor*.

RAILROAD FREIGHT RATES SHOULD RISE, SAYS WILLARD

EXPENSES OF ALL KINDS, BORNE BY COMMON CARRIERS, HAVE
GONE UP RAPIDLY IN A FEW YEARS.

By DANIEL WILLARD

President of the Baltimore & Ohio Railroad.

Specially written for the *Public Ledger*.

The subject of railroad freight rates is such a large one that it would be quite impossible to discuss it at all satisfactorily within the proper limits of a letter, but a brief history of the Eastern advance rate case, otherwise known as Interstate Commerce Commission case No. 3400, and some reference to subsequent developments in that connection, may be of interest.

In 1910 the railroads operating within what is known as official classification territory—which may be roughly described as that part of the United States bounded on the north by Canada, on the east by the Atlantic Ocean, on the south by the Ohio and Potomac Rivers and on the west by the Mississippi River—filed new freight tariffs, which provided for an increase of certain freight rates, chiefly those known as class rates, and the advance varied from 10 to 20 per cent.

At the request of the Interstate Commerce Commission the date when the increased rates should become effective was postponed by the carriers, and a hearing was ordered by the Commission so that the railroads might have opportunity to present their case and those opposed equal opportunity to present theirs. Extended hearings were had, and as a result of it all the Commission in its decision, handed down early in 1911, found, first, that the railroads had failed to establish a necessity for increased revenue.

Second, it was suggested that even though a necessity had been established, it was doubtful if the plan proposed was the right way in which to obtain such revenue. And it was further pointed out that there was a depression of all kinds of business at that time, and that the carriers ought not to expect to raise their rates when business was generally dull.

However, the Commission also said, among other things, that should it come about that their views were not sustained by future developments, and should it appear at any time that there was a real necessity on the part of the carriers for increased revenue, in

order that they might be in position to provide such facilities as the public required, that they would, upon request, give the matter further consideration. They said they would not hesitate, under such circumstances, to authorize such rates as would be reasonable.

CARRIERS ACCEPTED SITUATION.

The carriers accepted the situation and, I am confident, made strenuous efforts to meet the conditions imposed upon them with rates then in effect. Rigid economies were enforced and vigorous efforts were made to obtain greater efficiency of operation in all departments.

In a number of important instances, since the decision above referred to, dividends have been reduced. In at least three cases receivers have assumed charge of the property.

During the first two years immediately following the decision—that is, 1911 and the early part of 1912—the commerce of the country showed little, if any, increase. But during the latter part of 1912 and the early part of 1913 there has been marked activity in business of all kinds, and the gross earnings of the railroads generally for the year ending June 30, 1913, will probably be the largest in their history. It might be thought from this that they should now be able to show sufficient surplus above interest and dividend requirements to justify such further capital expenditures as may be necessary. A careful study of the facts, however, I believe will show that this is not the case.

First of all, the rates which were in effect in 1910 have not in the aggregate been maintained—that is to say, while certain increases have been made during that time, decreases also have come about. The net result has been, for example, a reduction in the earnings of the Baltimore and Ohio Company on the freight business handled by that company in October, 1912, of more than \$100,000 when compared with what they would have been in October, 1909. In other words, if the same rates, classifications and conditions had been in effect in 1912 that were in effect in 1909 the Baltimore and Ohio Railroad Company would have received in October, 1912, more than \$100,000 more than it did receive for the business actually handled in that month.

EXPENSES INCREASED GREATLY.

Not only has the general basis of rates been reduced—to some extent because of orders of the Interstate Commerce Commission, and perhaps, to an equal or greater extent by commercial conditions

or influences which are beyond the power of the carriers to resist—but during the same period expenses have also very greatly increased, as explained below.

Again in the case of the Baltimore & Ohio, the wage increase of 1910 amounted to approximately \$2,500,000 per year, when applied to the number of men at that time employed. The increases which have been granted—either voluntarily or by virtue of arbitration awards—within the last 12 twelve months have resulted in adding between \$800,000 and \$900,000 more to our expenses each year. Further, as is well known, the conductors and trainmen now are engaged in taking a strike vote for the purpose of enforcing their demands, which call for an increase, I understand, of approximately 17 per cent.

Prices of various kinds of material also have advanced since 1910, notably in the case of fuel coal, ties and equipment. The coal bill of the Baltimore and Ohio Railroad amounts to, approximately, \$6,000,000 per year, and within the last two years, there has been an advance in the price of coal of upward of 10 per cent.

The increase in price of ties, while not so great in the aggregate, will be large. The prices asked and paid for locomotives, and freight and passenger cars are higher today than was the case three years ago for equipment of the same kind.

TELLS OF FULL CREW BILL.

Furthermore, legislation of various kinds—both State and Federal—has had an important influence upon expenses. The so-called full crew bill, which has become a law in many of the States, requires the railroads to employ one extra man on all trains of more than a certain length, although the railroad managers unanimously believe the law to be unnecessary and unwise. But regardless of whether such laws are wise or not, the expense is the same and must be met.

The hours of service law, boiler inspection law, laws in various States prescribing standards of construction for caboose cars, laws with reference to the construction of postal cars, revised orders with reference to safety appliances upon new equipment, as well as upon existing equipment; laws with reference to grade separation, etc., etc.—all have tended to very greatly increase the cost of operation; and further, the public demands, expects and receives a higher standard of service in all directions than has ever been the case before.

This results, for instance, in the running of a greater number of passenger trains than the business itself would justify over the lines

where the traffic is light; and also in a higher standard of freight service—that is to say, carriers are required to furnish cars more promptly, and to move them with less delay. While no one recognizes better than the railway executives that the service is not always satisfactory, and is frequently not such as they would like to furnish, I believe it is, nevertheless, a fact that, upon the whole, it is on a more satisfactory basis today than ever before, but this all means greater expense in operation.

INTEREST RATE A FACTOR.

Another very important element is the rate of interest which railways are obliged to pay upon new capital raised for improvements and betterments. It may be argued that the interest basis on all investments has been raised within recent years, and that the very best securities pay higher rates today than ever before, and that the railroads are not peculiar in this respect. But, even so, they are still required, in common with others, to pay a much higher rate of interest than was the case some five or ten years ago.

Ten years ago if a railroad company with well established credit, decided to increase its capital for improvement purposes—we will say \$1,000,000—it was customary to assume that the interest charge on that account would be approximately \$40,000 per year. Under existing conditions, the interest charge would be between \$50,000 and \$60,000 per year as a minimum, and, in some cases, even in excess of \$60,000. This item alone, as you will see, becomes very important when large systems—like the Baltimore and Ohio—are spending upward of \$20,000,000 a year, and ought to do so, for betterments, extensions and new equipment.

Taxes have increased largely during the last three years. In the case of the Baltimore and Ohio Company, the increase in that one item since 1909, amounts to more than \$900,000 a year. I think it is perhaps not a matter of common knowledge, although one of public record, that the American railroads, as a whole, pay each year in taxes more than \$120,000,000.

The various influences which I have mentioned all have tended to reduce the margin between income and outgo. And it has become so narrow that the railroads—many of them, at least—do not feel justified in further increasing their capital charges, because the burden assumed by so doing might seriously interfere with their ability to maintain reasonable payments upon existing capital issues.

The result is that the railroads generally in official classification territory are very rapidly coming to a stop so far as matters of

capital expenditures are concerned. Inasmuch as few, if any, are able to provide for new additions and improvements out of surplus earnings, it is quite certain that the railroads in the territory referred to will not be able to keep pace with the growing commerce of the country.

FEEL RATE RISE NECESSARY.

On that account many have felt that a moderate advance in freight rates is not only justified, but actually ought to be made at this time. Also that in view of the changes which I have referred to, the Interstate Commerce Commission would be disposed today to grant the request which the railroads contemplate making—that they be allowed to advance all freight rates in official classification territory 5 per cent.

It was suggested before, in the case known as No. 3400, that if the railroads had established the fact that they needed additional revenue at that time, the method which they proposed for obtaining it was not the right or best way, in that it imposed increases of from 10 to 20 per cent. upon some rates, and made no increase whatever upon certain others.

It was argued, and with much force, that the relation of rates which then existed, had come about through a long period of competition and regulation, and that anything which tended to disturb that relationship should be avoided, if possible. The carriers recognize the force of that argument, and, in the present instance, have recommended that the increased revenue be obtained by advancing all rates an equal amount—that is to say, 5 per cent. If this were done, it is believed that commercial conditions would be very little, if at all, disturbed thereby.

It also was argued in the previous case, that, even if the carriers did desire additional revenue at that time, the same condition was more or less true with all other business. That is to say, it was a period of commercial stagnation, and it was said that the carriers ought to raise their rates, if at all, during a time of commercial activity, and not when business was dull. The force of that argument also was recognized.

RECORD VOLUME OF BUSINESS.

The volume of business, which is being handled today, is probably greater than at any other time in the history of the country, and profits are supposed to be upon a generally satisfactory basis. If

that is true, it would seem that business ought to be able to stand, with very little discomfort, the small advance in freight rates now proposed.

This proposed increase has been considered and advocated chiefly by the officers directly in charge of the properties involved—men who, in nearly all instances, have spent their lives in the railway service, who are now salaried officers of such corporations, and who realize fully that they occupy the dual position of trustee for the owners of the properties, and also that of semi-public officials responsible to the public for the proper maintenance and operation of the properties in their charge. It would seem that their opinion in a matter of such grave importance to the country as a whole ought to be given serious consideration.

Personally I have the utmost confidence in the intelligence, fairness and patriotism of the gentlemen who constitute the Interstate Commerce Commission. I entertain no doubt whatever that when the matter reaches them they will eventually decide it in light of all the facts presented.

I believe, however, that the right solution of this case is of such importance and of such vital interest to all concerned that there ought to be, and I indulge the hope that there will be, no such general opposition to the proposed advance this time, as developed in the previous case.

The public is constantly letting it be known, and properly so, that it desires to ride in steel coaches; that it wants, when it travels, the protection of the electric automatic block; that it wants to be properly provided with cars of suitable kind when it has freight to ship, and that also it wants its freight moved promptly and with regularity to its destination, and the public is no more anxious to have all the things above mentioned, than I, as chief executive of the Baltimore and Ohio Company, am anxious to furnish them. But such things are expensive, and cannot be furnished unless the money is available; and it is not available at this time.

A 5 per cent. increase on all freight rates in official classification territory, if granted, would probably increase the gross revenue of the carriers involved, upward of \$40,000,000 per year, and while that sum seems large of and by itself, it is not large when considered in connection with the whole matter. It would mean an increased average charge on all the business handled in the territory referred to of approximately 5 cents per ton; and, if I mistake not, the 5 per cent. increase which is now requested, will fall short of what is reasonably necessary, unless some of the influences which have

tended to increase so greatly operating expenses in recent years should in some manner be checked.

I have outlined above, in a general way, my reasons for believing that the 5 per cent. increase as requested should be granted. It is hardly necessary that I should add that the carriers expect to be able to produce ample and specific evidence to support the general statements which I have made, and I feel confident of their ability in this instance to fully sustain the burden of proof which rests upon them.

WOULD NOT FAVOR OFFICIALS.

I wish to call attention again, by way of emphasis, to the fact that the men who are representing the railroads in this particular movement will be affected very little, if any, in a personal way by the outcome of this issue. They are, by virtue of their positions, the trustees of the properties, and they are also, in a very proper sense, semi-public officials charged with important public duties to perform. Should their request for increased revenue in the present instance be denied, as was the case in 1910, they will continue as they have in the past, to fulfill their obligations to the public as best they may, while at the same time not unmindful of the proper responsibility resting upon them as the fiduciary agents of those whose money has been invested in railway securities with the proper expectation of a fair and reasonable return.

I do not believe the American people, as a whole, desire to be unfair to the railroads or to those who have invested either their earnings or their inheritance in railway securities.

If the railroads were a completed institution, and if further additions and extensions were unnecessary, the whole subject would present an entirely different phase. But they are not completed, nor will they ever be completed, so long as the commerce of the country continues to grow, and conservative estimates have shown that the roads interested in this particular case will probably be required for some years to come to raise in some manner each year for additions and betterments a sum well upward of \$500,000,000.

It is absolutely out of the question to think of providing such a sum from the surplus earnings of the roads, nor would such a policy be advocated or desired. Undoubtedly it is desirable that a considerable portion of that sum should come from each year's surplus. But much the larger part must be realized from the sale of new securities. In order that there may be a sale, it is necessary that there must also be some one to buy, and it should be remembered

that the act of buying is one of purely voluntary action. But people will not buy railroad securities—which is another way of saying that they will not invest their money in railroads—unless they believe they will receive as good return upon the money so invested as they would if it were invested in some other line of undertaking with similar risk and responsibility.

As I stated at the beginning of this letter, the subject is so large a one that it is quite impossible to treat it in a manner at all satisfactory within the proper limits of a letter. Should you desire to use this letter in its entirety you are at liberty to do so, and if, in your opinion, some of it may be omitted, I have no objection to its being cut, provided such change does not alter or affect the point of view which I have been trying to develop.

I wish to thank you again for your very interesting and encouraging editorial of the 4th inst., and also for your invitation to write you more fully concerning the same subject.



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